

# 2010-11 – 1<sup>st</sup> and 2<sup>nd</sup> QUARTER STATUS REPORT – Chief Executive Officer (A. Stausboll)

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## Quantitative Performance Measure

### Total Fund

Weight	Performance Measure	Incentive Schedule	2 <sup>nd</sup> Quarter Status
5%	Excess return deviation in basis points relative to: Total Fund Performance Benchmark {SJ1CA1 – CPERST02}	-27 basis points = 0 +7 basis points = 1.0 +23 basis points = 1.5	+26 bps {13.96 – 13.70}

## Qualitative Performance Measures *(All performance measures utilize standard Qualitative incentive schedule unless otherwise noted)*

### Customer Focus

Weight	Performance Measure
30%	<p>By June 30, 2011, achieve Enterprise Priority #1 “Customer Focus,” as set forth in the 2010-11 Business Plan approved by the Board:</p> <ul style="list-style-type: none"> <li>Enhance consistent, collaborative communication and engagement with stakeholders</li> <li>Ensure the PSR/ETM/PERT Project remains on schedule and within budget and implement planned activities in the PSR/ETM/PERT Recovery Plan</li> <li>Implement an enterprise web-based multi-channel communication service</li> </ul> <p>(Specific tactics and milestones are set forth in the Business Plan)</p>
<p><b>1<sup>st</sup> and 2<sup>nd</sup> Quarter Status:</b></p> <p><b>Stakeholder Communication and Engagement</b></p> <ul style="list-style-type: none"> <li>Developed and began implementation of project plan for reputational risk assessment. Completed phase I, including 30 senior staff interviews and a retrospective media analysis.</li> <li>Increased engagement with employer groups, for example, hosted first Employer Organization Roundtable (9/29/10) for senior leaders of employer associations, and created CEO video message for employers (posted 10/18/10).</li> <li>Sponsored Annual Educational Forum (1/25-27/10).</li> <li>Regular meetings with labor representatives, and presentations to Labor Coalition.</li> </ul> <p><b>PSR</b></p> <ul style="list-style-type: none"> <li>Application and Recovery Phases were completed on time.</li> <li>Project achieved a major milestone with completion of System Test Phase.</li> <li>PSR Executive Committee continued to meet bi-weekly to provide oversight.</li> </ul> <p><b>Enterprise Web-Based Communication Service</b></p> <ul style="list-style-type: none"> <li>Completed policies, procedures and standards for webinar communications.</li> <li>Equipped all regional offices with infrastructure and technology capacity for virtual member counseling and education.</li> <li>Presented two pilot webinars in December: <i>Potential Changes in Your Employer Contribution Rate</i> was attended by 450 employers and <i>Personal Investment for Retirement</i> was attended by 435 participants.</li> </ul>	

### Sustainability

Weight	Performance Measure
30%	<p>By June 30, 2011, achieve Enterprise Priority #2 “Sustainability,” as set forth in the 2010-11 Business Plan approved by the Board:</p> <ul style="list-style-type: none"> <li>Protect stakeholder interests, assist policymakers in making decisions, and influence the state and federal pension reform debate</li> <li>Implement the 2010 Investment Roadmap strategies</li> <li>Implement federal health care reform legislation provisions</li> <li>Begin implementation of the CalPERS Health Benefit redesign and the restructure of the health rate strategy</li> <li>Implement key Information Technology Strategic Plan initiatives</li> </ul> <p>(Specific tactics and milestones are set forth in the Business Plan)</p>

## 1<sup>st</sup> and 2<sup>nd</sup> Quarter Status:

### Engage in State and Pension Reform Debate

- Initiated Public Employee Compensation task force and three working groups in response to issues reported about excessive employee compensation.
- Implemented enhanced actuarial transparency by providing expanded information on the impact of investment volatility on employer contributions rates; information was provided with all valuation reports.
- Launched Pension Soundness internal working group to monitor pension reform proposals, advance those consistent with CalPERS objectives, and provide education as appropriate.
- Met with various representatives from Congress and the Administration, as well as policy organizations in Washington DC, to begin developing policy platform on national retirement security.
- Created educational toolkit and distributed to employers in October 2010.
- Continuously monitored and provided input regarding legislative proposals.

### Implement Federal Health Care Reform

- Implemented all initial required changes to implement the Affordable Care Act. The Age 26 Dependent Program resulted in almost 28,000 new enrollees being added for coverage effective January 2011.
- Applied for and have received \$57 million of an anticipated \$200 million in Early Retiree Reinsurance Program payments.
- Aligned regulations regarding dependant age to new legislation; pending at Office of Administrative Hearings.
- Made changes to plan benefit design to eliminate lifetime limits on most services; required regulatory changes are in process.

### Begin Implementation of Health Benefit Redesign and Restructure of Health Rate Strategy

- Completed market scan to evaluate health plan cost containment efforts; findings to be presented to Board in January, and will be used to form strategies for plan relationships, benefit design and rate discussions, and cost containment.
- Established three year rate setting framework established to enhance data-driven rates negotiation process.
- Obtained evaluation of risk-sharing across all plans; outcomes to be presented to Health Benefits Committee in April 2011.

### Implement Investment Office Roadmap

- In progress.

### Implement Key Information Technology Strategic Plan Initiatives

- Strategy for leveraging PSR automated services across the enterprise is underway.
- Implementation in progress to automate services in five selected administrative areas to improve efficiency.

## Building Internal Strength

Weight	Performance Measure
25%	<p>By June 30, 2011, achieve Enterprise Priority #3 "Building Internal Strength," as set forth in the 2010-11 Business Plan approved by the Board:</p> <ul style="list-style-type: none"> <li>• Complete the special review of placement agent issues and adopt appropriate recommendations to implement governance changes</li> <li>• Attract, develop, and retain a diverse workforce and build a work culture that reflects diversity and inclusion best practices</li> <li>• Institute an enterprise Risk Management function to effectively evaluate, monitor, and manage risk across the organization</li> <li>• Complete the first phase of the Organizational Alignment initiative</li> <li>• Design and implement an enterprise Succession Plan framework to ensure leadership continuity, retention of institutional expertise, and development of staff</li> </ul> <p>(Specific tactics and milestones are set forth in the Business Plan)</p>

## 1<sup>st</sup> and 2<sup>nd</sup> Quarter Status:

### Special Review/Implement Appropriate Changes

- Preliminary observations and findings presented to the Board in December 2010.
- Agreements with external investment partners resulted in significant fee savings.
- Obtained passage of AB 1743 (placement agent legislation); currently working on implementing regulations.
- Developed and implemented Working Values Training, which was provided to all Form 700 filers, and was designed to reinforce commitment to ethics and other working values.

- Launched 24/7 Ethics Hotline.
- Implemented policy that requires contractors to provide greater disclosure (November 2010).

## Diversity in the Workforce/Work Culture

- Results from 2010 Diversity and Inclusion Study are being reviewed.
- Launched web based investment proposal submission system to level playing field and ensure access (July 2010).
- Workshop for Emerging Manager is planned for second half of year.
- Completed policies and procedures for closed captioning for videos.

## Institute Risk Management Function

- Established Risk Management Office.
- Recruitment pending for permanent Chief Risk Officer.
- Developed Enterprise Risk Management Policy (adopted by Ad Hoc Risk Committee in November 2010).
- Established and launched Enterprise Risk Management Committee comprised of executive staff; developed and approved operating charter.
- Work underway to develop and implement infrastructure/operational support for the Office.
- Developed risk profile for PSR project.
- Launched reputational risk project.

## Organizational Alignment Initiative

- Completed review of the Core Values with extensive employee input, including Core Values Super Jam in August 2010; results to be rolled out in January.
- Developed and presented high level organization structure alternatives to Board in July 2010; narrowed alternatives and presented final top level structure to Board in November 2010.
- Completed realignment of the organization's business planning process with the budget process and the performance objective process.

## Design and Implement Enterprise Succession Plan

- In progress.

## Organizational Management Practices

Weight	Performance Measure
10%	<p>By June 30, 2011, achieve improvements in enterprise management by:</p> <ul style="list-style-type: none"> <li>• Maintaining an average enterprise-wide position vacancy rate of 5% or less through the Fiscal Year 2010-11</li> <li>• Ensuring all Form 700 Statements of Economic Interest are filed by scheduled employees by the mandated due date of April 1, 2011</li> <li>• Ensuring all scheduled employees complete the legally mandated AB 1234 ethics training by June 30, 2011</li> <li>• Maintaining an enterprise-wide 90 percent EPAD completion rate</li> <li>• Resolving all outstanding audit findings within 12 months of audit report.</li> </ul>
<b>1<sup>st</sup> and 2<sup>nd</sup> Quarter Status:</b> <ul style="list-style-type: none"> <li>• As of December 31, 2010, vacancy rate was 6.3 percent. Vacancy rate at start of FY was 6.9%.</li> <li>• Monitoring and verifying Form 700 filing, ethics training completion, and EPAD completion.</li> <li>• As of December 31, 2010, there were 50 internal audit findings over one year old; 22 of these are from FY 2009/10. As of December 31, 2009, there were 84 such findings. Resolution of these issues is either in progress or being considered for Acceptance of Risk. This data will be reported, with more detail, at the Finance Committee in March 2011.</li> </ul>	